

## **SECTION I--GOVERNMENTAL ACCOUNTING**

### **GOVERNMENTAL ACCOUNTING**

#### **Fund Accounting:**

Statute indicates resources which a school is permitted to receive and expressly and/or implicitly states the purposes for which those resources may be used. The accounting system used by a school should provide for legal compliance; that is, resources are received and spent according to law. For this reason, schools have evolved a means of indicating legal compliance by use of "fund accounting."

The Governmental Accounting Standards Board has defined the term "fund" as follows:

A fund is a fiscal and accounting entity with a self-balancing set of accounts recording cash and other financial resources, together with all related liabilities and residual equities or balances, and changes therein, which are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions, or limitations.

The diverse nature of a school's operations and the necessity of determining legal compliance preclude a single set of accounts for recording and summarizing all the financial transactions. Instead, the required accounts are organized on the basis of funds, each of which is completely independent of any other. Each fund must be so accounted for that the identity of its resources, obligations, revenues, expenditures, and fund equities is continually maintained. These purposes are accomplished by providing a complete self-balancing set of accounts for each fund which shows its assets, liabilities, reserves, fund balances or retained earnings, revenues and expenditures/expenses.

An account is defined as a formal record of a particular type of transaction. A group of accounts comprises a ledger. Similarly, a group of accounts consisting of all accounts required to describe the financial condition and results of an entity operation comprise a general ledger.

### **CLASSIFICATION OF FUNDS AND ACCOUNT GROUPS**

Funds are classified according to the source of revenue and the type of activities which they finance. Funds of a similar nature are classified according to fund groups. The following classification contains the appropriate fund groups, types, and self-balancing account groups:

#### **Governmental Funds:**

- 10 - General Fund
- 20 - Special Revenue Funds
- 30 - Debt Service Funds
- 40 - Capital Projects Funds

#### **Proprietary Funds:**

- 50 - Enterprise Funds
- 55 - Internal Service Funds

#### **Fiduciary Funds:**

- 60 - Trust and Agency Funds

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Self-Balancing Account Groups:

90 - General Fixed Asset Account Group

00 - General Long-Term Debt Account Group

### DEFINITIONS OF FUNDS

#### GOVERNMENTAL FUND TYPES

- 10     **General Fund** - to account for all financial resources except those required to be accounted for in another fund.
- 20     **Special Revenue Funds** - to account for the proceeds of specific revenue sources (other than expendable trusts or major capital projects) that are legally restricted to expenditures for specified purposes. When grants require a separate fund, a special revenue fund should be established for each grant.
- 30     **Debt Service Funds** - to account for the accumulation of resources for, and the payment of, general long-term debt principal and interest.
- 40     **Capital Projects Funds** - to account for financial resources to be used for the acquisition or construction of major capital facilities (other than those financed by proprietary funds and trust funds).

#### PROPRIETARY FUND TYPES

- 50     **Enterprise Funds** - to account for operations (a) that are financed and operated in a manner similar to private business enterprises - where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.
- 55     **Internal Service Funds** - to account for the financing of goods or services provided by one department or agency to other departments or agencies of the governmental unit, or to other governmental units, on a cost reimbursement basis.

#### FIDUCIARY FUND TYPES

- 60     **Trust and Agency Funds** - to account for assets held by a governmental unit in a trustee capacity or as an agent for individuals, private organizations, other governmental units, and/or other funds. These include:
  - (a)     **Expendable Trust Funds** - funds whose principal and income may be expended in the course of their designated operations. The use of expendable trust funds should generally be limited to instances where legally mandated or where a formal legal trustee relationship exists.

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- (b) Nonexpendable Trust Funds - funds whose principal must be preserved intact. Nonexpendable trust funds are most often used to account for the principal portion of endowments provided to a government by private donors with the stipulation that their principal be preserved intact.
- (c) Pension Trust Funds - funds used to account for public employee retirement systems.
- (d) Agency Funds - funds used to account for assets held by a government as an agent for individuals, private organizations, other governments, and/or other funds.

### DEFINITIONS OF ACCOUNT GROUPS

- 90 **General Fixed Assets** - a self-balancing account group used to provide a record of fixed assets owned. All fixed assets will be shown under this classification except those which are recorded in enterprise and trust funds.
- 00 **General Long-Term Debt** - a self-balancing account group set up to account for the general long-term liabilities. All debt maturing more than one year legally payable from general revenues and backed by full faith and credit will be shown under this classification.

### BASIS OF ACCOUNTING

“Basis of accounting” refers to when revenues, expenditures, expenses and transfers (and the related assets and liabilities) are recognized in the accounts and reported in the financial statements. The “modified accrual” basis of accounting should be used to account for all governmental funds, expendable trust funds and agency funds and the “accrual” basis should be used for proprietary funds, nonexpendable trust funds and pension trust funds. Under the accrual basis of accounting, revenues are recognized in the accounting period in which they are earned; expenses are recognized in the period incurred, if measurable. Under the modified accrual basis of accounting, revenues are recognized in the period in which they become available and measurable, and expenditures are recognized in the accounting period in which the fund liability is incurred, if measurable.

Summaries of significant policies of the modified accrual basis of accounting are:

- (a) Generally, revenues should be recorded on the accrual basis only if they are susceptible to accrual. Being susceptible to accrual implies more than being measurable. Revenues considered susceptible to accrual are those revenues that are both measurable and available. In substance, “available” means that the item is a resource that can be used to finance the governmental operations during the year.

Revenue sources generally not considered susceptible to accrual include those generated on a self-assessed basis such as sales taxes. Normally, such taxes would be recorded as revenue when received. Material revenues otherwise not recorded until received should be accrued if receipt is delayed beyond the normal time of receipt. For example, if material sales tax revenues should have been received prior to the financial statement date but are delayed until after statement date, the amount should be accrued.

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Revenues recorded as receivables prior to normal time of receipt should be offset by deferred revenue.

- (b) Expenditures are recorded on the accrual basis, except:
1. Disbursements for inventory type items may be considered as expenditures at the time of purchase (the "purchase" method) or at the time the items are used (the "consumption" method).
  2. Normally, expenditures are not divided between years by the recording of prepaid expenses (for example, prepaid insurance).
  3. Interest on long-term debt, commonly accounted for in debt service funds, should be recorded as an expenditure on its due date.